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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The New Agricultural Programs . . .

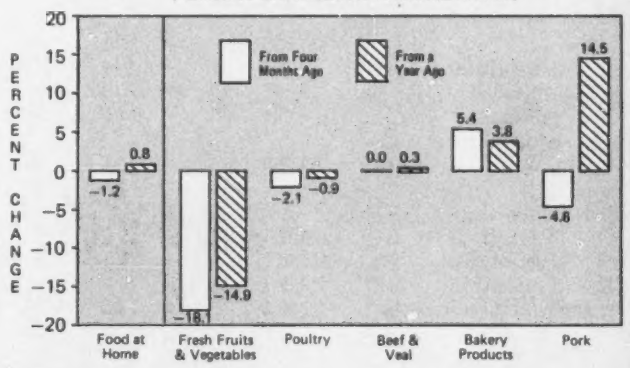
One of the most welcome developments accompanying the current economic recovery is the low rate of inflation. Since August, retail prices have advanced only 0.4 per cent at a seasonally adjusted annual rate—the lowest six-month rate of rise in more than 20 years—and have actually declined by an annual rate of 1.2 per cent in the last three months. The most widely publicized contributor to this descent has been the sharp drop in the cost of energy—a consequence of the falling price of crude oil on world markets. But even more important for most households is the price of food. Since more than one-fifth of consumer budgets is spent on food and beverages, the fact that prices at the nation's supermarkets have actually dropped in the past four months is particularly good news (see chart). During the year ending February, 1983, grocery food prices rose by a scant 0.8 per cent. This is a dramatic improvement over the previous year when prices increased by four per cent, year-over-year, or the year ending in February, 1981, when they shot up by nearly 11 per cent.

But what has been good for the consumer has not been so good for the farmer. Last year, farm incomes were depressed for the third year in a row. Net income—which measures returns to farm operators for labor, management and investment, while taking into account the swings in inventories—fell to about $20.4 billion in 1982, down from $25.1 billion in 1981 and $32.3 billion in 1979. In addition to low commodity prices, other contributors to this dismal situation were a sharp decline in overseas demand, implementation of protectionist policies by many countries, the high value of the U.S. dollar vis-à-vis other major currencies, sluggish domestic demand and rising operating costs. Importantly, in each of the past three years, the cost of operations rose at a faster pace than prices farmers received for their products.

. . . Will Lift Farmers Out Of Depression . . .

However, farmers now have something to look forward to. To alleviate the poor farm income situation and to reduce storage costs for the bulging government-owned or controlled inventory of grains and cotton, the Department of Agriculture announced the largest agricultural program in U.S. history, designed to take cropland out of production. It includes various acreage reduction plans including the well-publicized payment-in-kind (PIK) program, which offers to "pay" farmers in grain and cotton in return for an agreement to plant fewer acres of corn, wheat, rice or cotton. Another program pays farmers in cash to reduce their plantings 20 per cent. The government had hoped that the decline in planting would be offset by more grain coming to the market from inventory—thus keeping prices about the same.

CONSUMER PRICE INDEX: FEBRUARY 1983
FOOD AT HOME AND SELECTED COMPONENTS
(PERCENT CHANGES AT ANNUAL RATES)



But the response to these programs was underestimated and food commodities' prices have already jumped. While the Department of Agriculture originally expected about 23 million acres to be idled under these plans, it now looks as if more than twice that number of acres—or more than one-third of all available acreage for wheat, corn, rice and cotton will go unplanted. (In 1961, when the United States had large surpluses, farmers cut grain acreage by only 12 per cent under government programs.) About 35 per cent of the land traditionally devoted to wheat is expected to lay idle, while 39 per cent of available corn and sorghum acreage, 48 per cent of rice acreage and 44 per cent of cotton acreage will go unseeded. However, if in the near term commodity prices rise to high enough levels, some farmers may drop out and expand production.

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. . . But Are A Mixed Blessing . . .

Because of the unexpectedly huge enrollment in the PIK, the Department of Agriculture now realizes that it will not have sufficient quantities of grain for distribution when the time comes at the end of the growing season. In an attempt to avoid future shortages the government has just announced new measures to buy more grain for the government reserve. But the commodity markets have responded quickly to the expected contraction in grain and cotton supplies. Since these programs were unveiled last December, prices of grains on the futures markets soared. For example, corn prices have risen by more than 30 per cent since yearend 1982. The runup in wheat prices was not as steep—seven per cent for spring wheat, and six per cent for winter wheat. Cotton prices rose by almost 14 per cent.

All this bodes well for grain and cotton farmers. Their gross incomes this year will be boosted by the ever-increasing government subsidies while their production costs will drop substantially. However, this will occur at the expense—at least in the short run—of not only many agriculture-related industries, but also such other farmers as livestock and poultry producers. Since corn represents a large part of the cost of raising animals for slaughter, ranchers, who have just begun expanding their hog, fed-cattle and poultry inventories may, once again, tighten supplies in an attempt to raise prices and keep their balance sheets in the black.

This probably will not affect consumer prices for several months. In fact, in the near future continued food price moderation is likely,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.252	+ 1.188	+10.856
Loans to Depository Inst.	.641	– .253	– 1.011
Float	2.094	+ .227	– .014
Total Reserve Bank Credit	157.040	+ 1.365	+ 9.771
Treasury Deposits with Federal Reserve Banks	3.387	– .303	+ .058
Currency Outside Banks	138.314	+ 1.257	+11.481
Member Bank Reserves:			
Required	37.898	+ .514	– .963
Excess (Deficiency)	.297	– .104	+ .028
Total Reserves Held	38.195	+ .410	– .935
Net Free Reserves	.061	+ .184	+ .960
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.965	– 1.631	+16.415

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/16/83)	497.1	+ 15.5‡	+ 10.5‡
M2 (February '83)	2,048.6	+ 21.3	+ 12.8
M3 (February '83)	2,429.2	+ 10.0	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/1/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills (3/31/83)	8.35%	8.40%	8.40%
* Federal Agencies (3/31/83)	8.85	9.00	9.35
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	9.63	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.05	9.20	9.50

‡Finance Company Paper—Prime	
5- 14 days	9.00%
15- 29 days	8.75
30- 59 days	8.75
60- 89 days	8.75
90-179 days	8.75
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances	
May	8.90%
Jun.	8.90
Jul.	8.90
Aug.	8.90
Sep.	8.85
Oct.	8.85

‡Industrial Paper—Prime	
30- 89 days	9.25%
90-120 days	9.25

†Federal Funds Effective Rate 9.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.1	0.7	– 5.3
Change in Consumer Prices (new series)*	Feb '83	– 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83	1.2%	– 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Mar '83n	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83n	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83n	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Feb '83	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Feb '83n	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83n	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

especially for pork and poultry. Beef prices may rise seasonally during the spring, but they are expected to level off or possibly decline in the summer. Since grain prices represent only about 11½ per cent of the cost of cereal and bakery products, the effect of higher grain prices on retail prices will be small.

. . . For Allied Industries

Although the overwhelming participation in the government programs is expected to eventually pull the rural economy toward recovery—thus benefiting the downstream industries in the longer run—this year, however, the agriculture-related industries will bear the brunt of reduced farm activity. Farmers will be working less land and therefore they will be using less fuel, fertilizer, pesticides and labor, while they will be able to once again postpone purchases of farm machinery.

Manufacturers had hoped that the decline in the cost of borrowed money, low level of inflation and the fact that many farmers have pushed their equipment to the limit would finally boost sales this year. Now they will have to wait another year. Fertilizer use is expected to decline even steeper than last year's nine per cent drop. Pesticide consumption may decline by more than 15 per cent primarily due to the decline in corn planting, which has traditionally accounted for more than half of all pesticide use. Last year's consumption decreased by almost five per cent—the first decline in more than a decade. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/16/83)	106,399	– 2,072	–25,974
New York City (3/16/83)	28,525	– 1,016	– 4,458
Commercial Paper (3/16/83)	167,056	+ 72	– 3,843*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/16/83)	217,416	+ 912	+16,583
New York City (3/16/83)	59,626	+ 130	+ 3,623

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/16/83)	503,056	– 57	+28,193
New York City (3/16/83)	117,280	+ 619	+ 8,620

Financial Markets

	Thursday 3/31/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.92%	+ .12	– 4.82
180-Day Bills†	9.18	+ .18	– 4.95
Longest Bills†	9.30	+ .12	– 4.75
Recent Issues:			
9⅝s 3/31/85	9.87	+ .07	
10¼s 3/31/87	10.18	0.00	
10⅞s 2/15/93	10.60	+ .05	
10⅜s 11/15/12	10.67	+ .07	
Municipals:			
Bond Buyer–20 Bond Index* (3/30/83)	9.38%	+ .23	– 3.75
Blue List Total ($ Million)	$1,323	– $ 65	+ $ 539
30-Day Visible Supply ($ Million)	$4,558	– $222	+ $2,623
Total	$5,881	– $287	+ $3,162
Corporates:			
Moody's Aa Composite	12.33%	+ .05	– 2.79
30-Day Visible Supply ($ Million)	$1,172	+ $115	– $1,784
Stocks:			
Dow-Jones Averages:			
Industrials	1,130.03	– 15.87	+ 291.46
Transportation	507.39	– 12.31	+ 167.98
Utilities	124.58	– 1.71	+ 14.38
65 Stocks	446.07	– 7.65	+ 117.21
Standard and Poor's 500 Stocks	152.96	– .41	+ 37.84
N.Y.S.E. Composite Index	88.03	– .17	+ 21.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	75,740	– 9,130	+ 27,416

* 46% Taxable equivalent 17.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/1/83	Week Ago
Overnight	9.88%	8.81%
1 month	9.50	9.38
3 month	9.69	9.44
6 month	9.88	9.63
1 year	10.06	9.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.65%
Long Term (7 to 15 yrs.)	11.75	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/1/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02070	48.30
Canada	.8078	1.2380
Denmark	.1159	8.6250
France	.1375	7.2750
Germany	.4117	2.4290
Italy	.0006918	1445.50
Japan	.004174	239.60
Mexico	.006410	156.00
Netherlands	.3659	2.7330
Switzerland	.4805	2.0810
U.K.	1.4800	.6757

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